

Message Text

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ACTION INR-07

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 AGR-05 CIAE-00 /077 W

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R 131836Z APR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0762

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 05757

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: FINANCING EASTERN EUROPE'S TRADE WITH THE WEST

REF: STATE 38308; STATE 88453; LONDON 4118

SUMMARY: CONVERSATIONS HERE WITH U.S. AND U.K. BANKERS AND WITH ECGD OFFICIAL INDICATES INCREASING CAUTION IN LENDING TO EASTERN EUROPEAN COUNTRIES, BUT AS YET NO SIGNS OF DEBT RESCHEDULING OR FEARS OF NONPAYMENT. EASTERN GERMANY, HUNGARY, CZECHOSLOVAKIA AND POLAND GENERALLY ARE VIEWED MORE FAVORABLY WITH BULGARIA AND RUMANIA.

1. DURING DISCUSSION OF EASTERN EUROPEAN COUNTRIES FINANCING POSITIONS AND TRADE FINANCING, THEIR RELATIONSHIP TO THE SOVIET UNION INVARIABLY MENTIONED. AN ECGD OFFICIAL (PLEASE PROTECT AND TREAT AS NOFORN ALL INFORMATION IN THIS PARAGRAPH) REPORTS THAT ECGD HAS PRACTICALLY NO CREDITS OUTSTANDING TO EAST GERMANY AND CZECHOSLOVAKIA, WHICH FINANCE MOST OF THEIR IMPORTS THROUGH SHORT-TERM CREDITS. RUMANIA HAS REASONABLY SMALL AMOUNTS OUTSTANDING TO ECGD. POLAND IS A HEAVY TAKER. WHEREAS ECGD HAS NOT YET CHANGED ITS CREDIT RATINGS OF EASTERN EUROPEAN COUNTRIES, IT IS BEGINNING TO GET APPREHENSIVE, ESPECI-

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ALLY ABOUT POLAND, WHERE TOTAL COMMITMENTS ARE LARGE.

THIS SAID, ECGD APPREHENSION CERTAINLY IS NOT AT A STAGE WHERE IT WILL STOP GUARANTEEING CREDITS. SOURCE ADDED THAT ECGD IS NOT CONCERNED WITH THE USSR, WHICH HAS ONLY USED MINIMAL AMOUNT (35 MILLION POUNDS) OF THE 950 MILLION POUND CREDIT AVAILABLE TO IT. ECGD'S CREDIT RATINGS FOR THE COUNTRIES CONCERNED ARE: USSR--A; BULGARIA--C; CZECHOSLOVAKIA--B; EAST GERMANY--B; HUNGARY--B; POLAND--A; RUMANIA--C. SOURCE INDICATED THAT POLISH RATING IS IN PART A RESULT OF POLITICAL PRESSURE EXERTED ABOUT 18 MONTHS AGO WHEN POLES LEARNED THEY HAD BEEN GRADED B AND COMPLAINED TO UK SENIOR OFFICIALS AND WERE SUCCESSFUL IN HAVING THEIR RATING UPGRADED. SOURCE IMPLIED HE THOUGHT POLISH RATING WAS TOO HIGH IN CURRENT CONDITIONS.

2. NONE OF SOURCES QUERIED HAD HEARD ANY REPORTS OF RESCHEDULING ALTHOUGH SOME VOLUNTEERED THAT EASTERN EUROPEAN COUNTRIES AND COMECON AS A GROUP PROBABLY MORE STRAINED THAN IS REALIZED.

3. VIEWS DIFFERED FROM BANK TO BANK CONCERNING CREDITWORTHINESS OF EASTERN EUROPEAN COUNTRIES. A RECENT BULGARIAN ISSUE AT 1-1/2 PERCENT OVER LIBO HAD BEEN VERY SUCCESSFUL, 62 PERCENT OVERSUBSCRIBED. CHARACTERIZED AS BETTER THAN RUMANIA, BUT ONE OF LARGEST U.S. BANKS SAID IT WOULD PREFER NOT GET INVOLVED IN LENDING TO BULGARIA. ANOTHER BANKER THOUGHT THERE IS GOOD SCOPE FOR FURTHER PROJECT LOANS.

4. CZECHOSLOVAKIA SEEN AS BORROWING FOR SMALL DEALS, NOT IN LARGE AMOUNTS. ONE OF LARGEST U.S. BANKS THOUGHT CZECH CREDITS LOOKED GOOD; A CONSORTIA BANK REPORTED THAT IT PROBABLY WOULD NOT FAVORABLY CONSIDER LENDING TO CZECHOSLOVAKIA BUT IN PART THIS REPRESENTED LACK OF KNOWLEDGE AND DIFFICULTY IN OBTAINING INFORMATION.

5. EAST GERMANY SEEN AS PROBABLY THE MOST ATTRACTIVE EASTERN EUROPEAN BORROWER RAISING FUNDS IN THE MARKET, DOING VERY WELL, CURRENTLY BORROWING AT ABOUT 1-3/8 OVER LIBO IN AN ISSUE BEING HEADED BY BANK OF AMERICA. THEY
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ARE A NEW NAME IN THE MARKET; BANKS GENERALLY HAVE OPEN BOOKS, I.E., ARE NOT LENT UP EITHER IN TERMS OF SELF-IMPOSED OR LEGAL LENDING LIMITS. EASTERN GERMANY CAN PROBABLY RAISE FUNDS AT FINEST MARGINS AFTER USSR, AND ALSO BENEFITS FROM WEST GERMAN FINANCIAL ASSISTANCE.

6. HUNGARY WHICH HAS BORROWED HEAVILY MAY BE COMING IN AGAIN IN THE NEAR FUTURE, AND CAN PROBABLY BORROW AT

ROUGHLY 1-3/8 OVER LIBO. HUNGARIANS PUSH HARD FOR FINE MARGINS BUT THEY HAVE BORROWED HEAVILY IN THE PAST, WHICH WORKS AGAINST THEM GETTING FINEST RATES.

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7. POLAND IS THE COUNTRY MOST FREQUENTLY CITED AS BEING OVERBORROWED, BANKERS MAINTAINING IT WILL BE DIFFICULT FOR THE POLES TO TAKE FUNDS UNLESS THEY SHOW WILLINGNESS TO PAY MORE FOR THEM. POLES MAY BE LOOKING FOR AN ADDITIONAL 200 MILLION DOLLARS FOR THEIR COAL INDUSTRY IN THE FUTURE AND BANKERS EXPECT IT TO BE DIFFICULT TO OBTAIN FUNDS AT LESS THAN 1-1/2 OVER. THIS SAID. POLES HAVE BEEN WILLING TO MAKE A BIT MORE INFORMATION AVAILABLE TO THE MARKET THAN OTHER BORROWERS WHICH HAS HELPED THEIR CASE. OTHER BANKERS STILL OPTIMISTIC, CITE COPPER, COAL, LIGNITE, SULPHUR AND GOOD LABOR FORCE. THESE COMBINE INTO FOREIGN EXCHANGE EARNERS. MAIN POINT FOR LOANS TO POLAND (AND OTHER EASTERN EUROPEAN BORROWERS) IS TO GET AUTHORITIES TO SHAPE THEIR THINKING IN TERMS OF PROJECT LOANS THAT ARE SELF-LIQUIDATING, RATHER THAN TO SEE CREDITS AS FINANCIAL LOANS. THE PROJECTS FINANCED SHOULD RESULT IN FOREIGN EXCHANGE EARNINGS.

8. RUMANIA IS SEEN AS A SMALL BORROWER, NOT TAKING OVER 50 MILLION DOLLARS AT A TIME IN SPECIALIZED DEALS. NOT

ALL BANKS WANT TO TAKE RUMANIAN PAPER. DEALS ARE USUALLY PRICED AT ABOUT 1-5/8 OVER.

9. GENERAL COMMENTS REFLECTED FELT NEED FOR MORE CAUTION IN LENDING IN PART BECAUSE OF POLITICAL CONSIDERATIONS, CONFIDENTIAL

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IN PART BECAUSE OF AMOUNT OF CREDITS OUTSTANDING. SOME LENDERS MAY HAVE REACHED THEIR LEGAL OR SELF-IMPOSED LIMITS. THIS SAID, LENDERS ARE "HUNGRY FOR DECENT CREDITS AND PREFER EASTERN EUROPE TO AFRICA IN TERMS OF RISK. FUTURE DEVELOPMENTS PROBABLY INCLUDE LENDING AT LESS FINE RATES, I.E., WIDER SPREADS THAN SOME OF THE EUROPEAN COUNTRIES, ESPECIALLY HUNGARY AND POLAND. THINK THEY DESERVE.

10. BANKERS HERE DISCLAIM ANY PRECISE KNOWLEDGE OF MIDDLE EAST LOANS AND DEPOSITS, ALTHOUGH STATING THAT SOME OF THE EASTERN EUROPEAN COUNTRIES HAVE GOOD RELATIONSHIPS WITH OPEC PRODUCERS. FOR SOME EASTERN EUROPEAN BORROWERS' SUCH DEPOSITS ARE PROBABLY MADE; SOURCES COULD NOT QUANTIFY AMOUNTS BUT ESTIMATED THEY WOULD BE MODEST AND DONE QUIETLY. ARMSTRONG

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